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THE ROLE OF FINANCIAL INCLUSION MOVEMENT FOR DEVELOPMENT OF MICRO AND SMALL ENTERPRISES (MSES), ENTREPRENEURSHIP AND POVERTY ALLEVIATION.

Hermien Triyowati
Yolanda Masnita
Faculty of Economics, University of Trisakti
Corresponding author's e-mail address: hate_usakti@yahoo.com

ABSTRACT

The government's desire to reduce poverty, among others, implemented through financial inclusion movement that has long proclaimed and received International Recognition for achievements developing financial inclusion (2012) in order to reduce poverty, unemployment and prevent a widening gap between the poor and the rich population. By using the object of study of Islamic Microfinance Institutions in Indonesia, especially Sharia Rural Bank, Islamic Banks and Sharia Business Unit, investigated the effect of the provision of financing based Qardh, and special financing for micro and small enterprises. Qardh type of financing, aimed at the poor, without collateral, and without any compensation whose purpose is to virtue, while micro and small business financing, also intended for the poor, without collateral and with the principle of sharing. This financing, is in order to develop the business, providing guidance and support entrepreneurship promotion. Secondary data were collected from Indonesian Islamic Banking Statistics (2013), and Indonesia' Central Bureau of Statistics. With descriptive causality research design, as well as a fitted regression technique, the result showed the Financial Inclusion through financing Qardh have no effect on increasing Household income, and then of course have no impact to reducing poverty. While the Financial Inclusion through Financing Micro and Small business, affect the development of MSEs (institutional and labor), MSEs' Entrepreneurship (promotion and empowerment) and Poverty Alleviation, both through reducing poverty and increasing household income.

Key words: Financial inclusion, microfinance, micro & small enterprises (MSEs), Sharia Microfinance Institutions, labor, empowerment, promotion, entrepreneurship

INTRODUCTION

On the International Conference of Microfinance, conducted in 2012, Indonesia received International Recognition for the achievements of developing financial inclusion through the development of micro-credit and micro-finance, in order to reduce poverty, unemployment and minimalize the gap between the poor with middle / upper economic groups.

On the other hand, the results of study by Triyowati, H and Masnita.Y, 2013, proves that the movement of financial inclusion through the provision of micro-finance, as well as implement administrative requirements are relatively easy with Shariah principles, have

succesfully bring disadvantaged families, to boost their economy, and help the development of MSEs. The results also showed that, provided access micro finance for the purpose of consumption, affect the welfare of Dhuafa, positive and significance at p = 0.004, while provided access micro finance for productive purposes, influenced the development of micro-enterprises, positive and significance at p = 0.000. These facts is consistent with the objective of financial inclusion movement, i.e. the provision of micro finance through loans virtue (Al Qardhul Hasan), given to the poor, in order to improve the welfare and poverty alleviation. Yuswar ZB, *et.al*, 2014, carry out research related to financial inclusion movement, through the distribution of Zakat, Infaq and Shodaqoh (ZIS), by the Institute of Amil Zakat, in DKI Jaya. This study proves that, of the various means of ZIS implementation, the distribution of ZIS in the form of financing / capital with Shariah principles and empowerment (entrepreneurship training and debriefing of Religion), respectively affect Dhuafa'
Welfares, positively and significance. Thus, the movement of financial inclusion is necessary, in order to improve the welfare of society and the development of MSEs, since access to financial resources to the community, is a key element in the development of society, towards a better life and appropriate human dignity. Furthermore, associated with the number of poor people in Indonesia, in March 2014, decreased to 11.25%, consisting of a decrease in the urban poor, became 10.51 million people, as well as residents of rural poor dropped to 17.77 million people (BPS, 2013). This incident, not in spite of government efforts Poverty Program, which is divided into four clusters, where the third cluster, related to empowerment of MSEs, through financial inclusion movement , in the form of a loan without collateral, namely the People's Business Credit for MSEs.

By listening to various descriptions such, this paper aims to determine the effect of the movement of Financial Inclusion through Microfinance Institutions, for SME Development, Entrepreneurship and Poverty Alleviation.

THEORETICAL REVIEW

Financial Inclusion

Financial inclusion is an activity that aims to abolish all forms of financial barriers, to access financial services. Application of financial inclusion, will open the access of the poor (people who do not have collateral, does not have a regular job, trustworthy, and are not able to obtain credit) to financial services (savings, credit, payments and insurance). It means bringing "unbankable people" to financial institutions, so that they can enjoy financial services, such as the group "bankable people". This activity is a correction to the financial exclution, a financial condition that only benefit a handful of people, but in reality, the world is now inhabited by approximately 2.7 billion adults in the category "unbankable people" (Cahyono, 2013). Moreover, the goal of financial inclusion are: (1) access at a reasonable cost to a wide range of financial services, including savings, deposits, payment and transfer services, credit and insurance, to all households; (2) voice and security institutions, governed by regulatory and industry performance standards; (3) financial and institutional sustainability, to ensure continuity and certainty of investment; (4) competition to ensure choice and affordability for clients. (Rochadi, Budi S., 2010)

Implementation of financial inclusion, is also faced with some problems, which hamper people interact with financial institutions, such as the lack of knowledge to deal with financial institutions, inability to meet the requirements of administrative banking or situations in which the financial institutions are not interested in the needs of society, because of the geographical aspects, feasibility and affordability factor.

Microfinance Institutions (MFIs)

Micro Finance Institutions is a financial institution that was established to provide access to funding or financing of Micro, providing business development services, implement community empowerment, managing savings, as well as providing business development consulting services. This institution is not solely for profit, and in its implementation, applying the principles of Shariah. MFIs must obtain a business license, for the inauguration of the MFI form (cooperative or Limited Liability Company), intended as a strong legal foundation on the operational of the MFI (Act No. 1 of 2013 on MFIs by Financial Services Authority, 2013). Until year 2010, the number of MFIs in Indonesia, at 168 421 MFI (Nasution, Darmin, 2010).

Some MFIs are under the coordination of Islamic Banks and Sharia Rural Bank, as well as Sharia Business Unit and Sharia Cooperative Financial Services, which is engaged in various business sectors and aims to empower communities, as well as use management strategies with a simple administrative procedure.

Microfinance Definition

Microfinance is small loans for the poor, in order that they could be self-employed in order to increase revenue, and creating jobs for the poor, by providing access to financial services from MFIs. (Wiyono, 2005). One of microfinance, is financing Al Qardh. Qardh scheme is a financing agreement in the form of lending and borrowing transactions without compensation, the obligation of the borrower returns the loan principal in a lump sum or in installments within a specified period. So, the borrower simply return the loan principal only. Al Qardh receiver, a businessman economically weak, limited capital and do not have any recording in the management of financial and business management.

Other micro-finance is for Micro and Small Enterprises, meaning not applicable to Medium Enterprises. This financing scheme, specifically intended for the micro / small, do not have collateral, trustworthy and financing utilized for business development, not for the purpose of consumption. In lieu of collateral, is a customer ID card or marriage certificate or a diploma, certificate from the village or other certificates which explains the identity of prospective customers. This behavior is as an effort to provide administrative guidance to customers, associated with financing transactions.

Micro and Small Enterprises (MSEs)

Micro business, is a productive enterprise belongs to an individual or an individual business entity that meets the following criteria: (a) has a net worth of Rp 50 million, excluding land and buildings; (b) has annual sales of more than Rp 300 million. While the Small Business is a productive enterprise that stands alone, carried out by an individual or business entity, not a subsidiary or not a branch of the company that became part directly or indirectly from the medium or large business, and meet the following criteria: (a) has a net worth more than Rp 50 million up to a maximum of Rp 500 million, excluding land and business premises; (b) has an annual sales turnover of more than USD 300 million up to a maximum of Rp 2,500 million (Act No. 20 of 2008).

Some of the benefits of MSE are, do not require large capital and the flexibility of the structure of the business, where the owner can manage independently and free time. MSEs have the freedom to act, which means that the owner can act quickly to adjust to the change. Wide open business diversification, which the market can be explored through the creativity of managers, as well as the owner, receives all profits results of operations. From a legal standpoint, MSE has a simple legal procedure so that the process of establishment and dissolution becomes easy, besides taxation of SMEs is relatively mild. With low overhead costs, enabling the MSE can compete well and be able to survive in the face of economic downturn. While some of the weaknesses of MSEs are the limited capital resources and lack of management expertise, causes the growth of MSEs slow and irregular. Besides the lack of information on business, causing MSEs only refers to intuition and manager ambition, as well as the weak in the promotion. Faced with the risk and debt experienced by MSEs, all borne by the owner's personal wealth. Lack of knowledge, causing MSEs has no long-term planning system, which is generally required by business firms that are profit oriented, and does not care about the principles of managerial and various studies needed a business activity. (Musselman, Vernon A & John H Jackson, 1989).

Thus, the success of MSEs depends on the expertise of MSE leaders in running the business, that of intelligence and skill in conducting self-employed / entrepreneurs, which according to Musselman, Vernon A. *et al,* is an activity and risking invested time, money, and activities for starting a business and making it successful. In this concept, there is a willingness to bear risk and courage to start a business.

Entrepreneurs and Entrepreneurship

Entrepreneurs, is a person who has the ability to see and assess business opportunities, gather the resources needed to take advantage of it and take appropriate action to ensure that he will be successful. (Geoffrey G. Meredith, 2000). A leader who is entrepreneurial, have a creative response to the economic environment, always trying new business opportunities, whether producing new commodities or commodity old in a new way, or reorganizing an industry and open up new markets or exploit new discoveries, meaning that an entrepreneur has the primary function as an innovator. (Joseph A. Schumpeter, 2008). Entrepreneurship is the ability to create value through the utilization of business opportunities, manage risk in line with the opportunities, then, through the management and communicative skills, mobilize human resources, financial and material needed for the success of a project. As economic institutions, MSEs are required to have entrepreneurial skills both internally and externally.

Internal capability, include (1) the ability to carry out management functions (Planning, Organizing, Controlling and Coordinating); (2) managerial skills, the ability to observe the conditions and situation of MSEs, in terms of strength, weaknesses, opportunity and threat; and (3) ability to establish a business development strategy, is the ability to create long-term development strategies, including creating business flexibility, business plan development, business control and the ability of venture capital. (Kao, John J,1991).

Poverty

Poverty is a condition in which an individual or household is in a state of deficiency in welfare (Barrientos, 2010). There are two (2) types of poverty (D. Sachs, Jeffrey, 2005), namely (a) relative / moderate poverty described as a household income level below the average proportion of national income, and (b) extreme / absolute poverty, illustrates households can not meet basic needs for survival. According to the World Bank (2004), moderate poverty, expressed as households that only earn daily income between $ 1- $ 2, while for absolute poverty, less than $ 1 a day.

Some elements of poverty (Bappenas, 2002), are (a) the inability to meet basic needs (food, education, health, housing, clean water, transportation, and sanitation); (b) on the physical and psychological vulnerability, (c) the powerlessness and (d) the inability aspirations. In this regard, Ministry of Social Affairs (2014), prepared three grand strategies for poverty reduction in Indonesia, namely (a) empowering poor people in villages / wards, (b) provide programs addressing poverty up to the district, and (c) strengthen the institutional capacity in addressing poverty. On the other hand, PP No.15 / 2010, on the Acceleration of Poverty Reduction, mandated four (4) main instruments to reduce poverty, through Cluster I to IV, where Cluster III is identical to the implementation of the financial inclusion program. Cluster III is a poverty reduction program, based on the economic empowerment of micro and small enterprises, aims to provide access, and economic empowerment for micro and small scale entrepreneurs.

Previous Empirical Research

No	Title	Authors	Findings
1	The Analysis of Potency and Impact of Z.I.S Distribution on The Prosperity of Dhuafa	Yuswar, Z.B, *et.al,* 2014	Distribution of ZIS in the form of venture capital and economic empowerment, affecting Dhuafa's Welfare, positive and significance
2	The Impact of Microcredit on Social Welfare Level and Micro & Small Enterprises Developments	Triyowati, H dan Masnita. Y, 2013	Microfinance for productive purposes influence the development of SMEs, whereas for the purpose of consumption affect the Dhuafa's Welfare.
3	Factors Affecting Micro Credit for SMEs in Rural Bank, Sarimadu - Pekanbaru	Nursyam Arrozi; Djaimi Bakce, 2013	Micro credit for SMEs vegetable merchant had a positive impact on business revenues.
4	Effect of SMEs Loans Distribution on Operating Income and Profit, in PT Bank Jabar Banten Tbk.	Iman P. H ; Adi R. F. 2011	SMEs loans have no effect on operating income, but positive and significant impact on operating profit.
5	Islamic Microfinance Institutions and Economic Empowerment in Makassar	Salmah Said, 2010	There is a positive relationship between Refund Scheme Loans, Loan Amount, Term Loan Facility, SMEs Management and Control of BMT, to variable SME Empowerment.
7	The role of SMEs, and Credit's Contributions against Gross Revenue of Household SMEs (Case Study of BMT Mu@malat)	Shofia Nur Awami, 2009	MFI's contributions to finance HH SMEs, increase gross revenue amounted to 9.07% per month. MFIs should ideally have characteristics: a). Financing procedure, simple, b). Requirements are easily met, c). Credit costs cheap, d). Provision of credit, timely.

Conceptual Framework

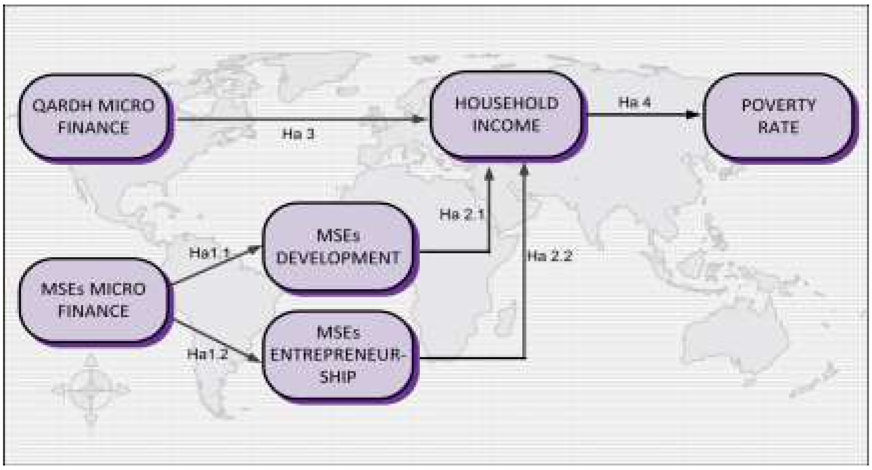

Figure 1: **Conceptual Framework Diagram**

Research Hypothesis

From this conceptual framework, it can be concluded several research hypotheses were as follows:

- Ha 1.2: Financing for MSEs, have positive influence on MSEs' Developments
- Ha 1.2: Financing for MSEs, have positive impact on MSEs' Entrepreneurship
- Ha 2.1: Financing for MSEs, have positive impact on household income through MSEs' Developments
- Ha 2.2: Financing for MSEs, have positive impact on household income through MSEs' Entrepreneurship
- Ha 3: Qardh Financing have a positive influence on Household Income
- Ha 4: Household Income have negative influence on Poverty

RESEARCH METHOD AND MODEL Research Design

The research design is descriptive-causality with a case study approach, is done by examining the influence of several predictor variables on the dependent variable. As an object of study, is the Islamic Micro Finance Institutions, under the coordination of Shariah Rural Bank, Islamic Banks and Shariah Business Unit, as well as institutional MSEs, in Indonesia. Secondary data used are the result of the publication of several government agencies in Indonesia, for the time period of 2007-2013. Furthermore, we can identify various predictor variables and dependent variable, such as follows:

a. The implementations of financial inclusion through MFs, in the form of (1) Qardh' Microfinance (QMic) for consumptive goals, that will affect Household Income ((HHInc) and (2) MSEs' Microfinance (MMic) for productive goals, that will affect MSEs' Development & MSEs' Entrepreneurship.
b. The indicators of MSEs' Development consists of (1) the growth of employee (MDlab) and (2) the development of MSEs Institutions (MDinst), while the indicators of MSEs' Entrepreneurship consists of (1) empowerment costs (MEemp) and (2) promotion costs (MEprom).
c. Furthermore, the increase of the Household Income (HHinc), through MSEs' Development and MSEs' Entrepreneurship, will affect poverty (Pv) i.e. reduce the amount of poor people.

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Data Analysis Method

The method of data analysis used in this study, includes several stages, i.e.:

a. To determine whether the data were normally distributed, as a prerequisite for the use of Ordinary Least Square method, we conduct test of the quality of secondary data, using a technique One Sample Kolmogorov Smirnov.
b. To determine the effect of financial inclusion through microfinance, against the development of SMEs, SMEs Entrepreneurship, Households' Income and Poverty, we use Fitted Regression Analysis, which is similar to the technique of Ordinary Least Square. This technique is used to identify the relationship between the predictor variables Xj and the response variable Y (variable that have been affected), when all other predictor variables in the model are considered constant
c. The analytical results, are used to test the hypothesis (t-test; F-test), as well as the goodness of fit test (R^2), which shows how much variation predictor variables in the model can explain the dependent variable, and then performed an interpretation of the analytical results obtained.

The research model (using *Fitted Regression Technique*), as shown in Table 1, below:

Table 1: The Research Model

General Model	Equations Model
1.1.a. MDinst = f (MMic) 1.1.b. MDlab = f (MMic) 1.2.a. MEprom = f (MMic) 1.2.b. MEemp = f (MMic)	1.1.a. MDinst $= \alpha_1 + \beta_1$ MMic $+ \varepsilon_1$ 1.1.b. MDlab $= \alpha_2 + \beta_2$ MMic $+ \varepsilon_2$ 1.2.a. MEprom $= \alpha_3 + \beta_3$ Mmic $+ \varepsilon_3$ 1.2.b. MEemp $= \alpha_4 + \beta_4$ Mmic $+ \varepsilon_4$
2.1. HH Inc = f (MDinst $_{fitted}$, MDlab $_{fitted}$) 2.2. HH Inc = f (MEprom $_{fitted}$, MEemp $_{fitted}$)	2.1. HH Inc $= \alpha_5 + \beta_5$ MDinst $_{fitted}$ $+ g_5$ MDlab $_{fitted}$ $+ \varepsilon_5$ 2.2. HH Inc $= \alpha_6 + \beta_6$ MEprom $_{fitted}$ $+ g_6$ MEemp $_{fitted}$ $+ \varepsilon_6$
3. HH Inc = f (QMic)	3. HH Inc $= \alpha_7 + \beta_7$ QMic $+ \varepsilon_6$
4. Pv = f (HH Inc $_{fitted}$)	4. Pv $= \alpha_6 + \beta_6$ INC $_{fitted}$ $+ \varepsilon_6$

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Whereas:

- MMic = Microfinance for MSEs
- QMic = Qardh' microfinance
- MDinst = MSEs' institutional development
- MDlab = MSEs' labor development
- Pv = Poverty

Data normality test results.

- MEprom = MSEs' promotion costs
- Meemp = MSEs' empowerment costs
- HHinc = Household income
- α, β, g = parameter estimate
- e = error correction

THE FINDINGS

K's test results demonstrate the significant value of each variable is more than .05, this means that all the data is **normally distributed,** making it eligible to be processed by the regression model (see Appendix II).

The results of hypothesis testing (see Table -2):

a. Ha 1.1 (a and b) and Ha 1.2 (a and b), **accepted** positif and significance, meaning that micro-finance for MSEs (productive purposes), proven to improve the development of MSEs, both an increase in the number of agencies, as well as the number of their employees; while also improving MSEs Entrepreneurship, either through promotion and empowerment.

b. Ha 2.1, **rejected**, meaning that the development of MSEs, do not have an influence on Household Income; While, Ha 2.1, **accepted** positively and significance, meaning MSEs' Entrepreneurship conducted through the promotion of MSEs and MSEs' empowerment, positive influence and significance of the Household Income.

c. Ha 3, **rejected**, that is to say, Qardh' Microfinance, specifically for the purpose of consumption, has no effect on Household Income.

d. Ha 4, **accepted**, negative and significance, this means that there is the influence of Household Income (which have been affected by the development of SMEs in terms of entrepreneurship), against Poverty.

Table-2: The Result of Data Processing[1]]

Equations	R2	F-test	t - test	Ha
1.1.a. MDinst = $\alpha_1 + \beta_1$ MMic + ε_1	.976	.000[b]	.000	Accept
1.1.b. MDlab = $\alpha_1 + \beta_1$ MMic + ε_1	.975	.000[b]	.000	Accept
1.2.a. MEprom = $\alpha_3 + \beta_3$ Mmic + ε_3	.933	.000[b]	.000	Accept
1.2.b. MEemp = $\alpha_4 + \beta_4$ Mmic + ε_4	.678	.023[b]	.023	Accept
2.1. HH Inc = $\alpha_5 + \beta_5$ MDinst $_{\text{fitted}}$ + g_5 MDlab $_{\text{fitted}}$ + ε_5	.968	.000[b]	.275 (inst)	Reject
			.659 (lab)	Reject
2.2. HH Inc = $\alpha_6 + \beta_6$ MEprom $_{\text{fitted}}$ + g_6 MEent $_{\text{fitted}}$ + ε_6	.948	.001[b]	.010 (prom)	Accept
			.039 (emp)	Accept
3. HH Inc = $\alpha_7 + \beta_7$ QMic + ε_6	.018	.773[b]	.773	Reject
4. Pv = $\alpha_6 + \beta_6$ INC $_{\text{fitted}}$ + ε_6	.778	.009[b]	.009	Accept

CONCLUSION

a. Special micro financing for MSEs, proved able to develop SMEs and SMEs' entrepreneurship, also proved to increase household income, particularly through promotion and empowerment of the MSEs, with the effect of 94.8%. This fact, as the research findings Triyowati H *et.al* and Yuswar ZB *et.al*, which reveal the needs of the community (Dhuafa) on access to capital, coupled with economic empowerment. Meanwhile, the development of MSEs (the number MSEs and the amount of MSEs' labor), simultaneously affect household income, with the effect of 96.8%.
b. Qardh micro-financing, for the purpose of consumption, proved not affect household income. This fact shows that consumer activity among households Dhuafa, do not create a multiplier effect of income. There is a possibility, consumer shopping transactions, carried out on middle and upper income groups, not between Dhuafa' citizens.
c. In this study, it is also evident that the increases in household income, through access to micro finance especially for MSEs, have an impact on poverty reduction, with effect as 77.8%. This demonstrates the important role of micro financing, which is the application of financial inclusion movement, in developing MSEs and MSEs' Entrepreneurship, which ultimately contribute to the poverty alleviation.
d. This empirical finding, expected to provide information and raise awareness of the parties concerned, especially the government, financial institutions, and banking, associated with providing access to microfinance, as well as procedures for management, in order to succeed the movement of financial inclusion and poverty alleviation programs.

APPENDIX

SECONDARY DATA

Year	MSEs' Microfinance (IDR,million)	Qardh' Microfinance (IDR, million)	MSEs' Institutions (unit)	MSEs' Labor (person)	MSEs' Promotion Costs (IDR, billion)	MSEs' Empowerment Costs (IDR, billion)	Poverty (person)	Household Income (USD 000)
2007	20,141,028	559,038	50145800	90491930	2,419	1,908	3,717	36,457
2008	27,720,359	999,308	51409612	94024278	4,358	2,759	3,496	43,211
2009	36,632,076	1,879,018	52764603	96211332	4,980	3,667	3,253	51,023
2010	53,685,962	4,794,000	53823732	99401775	6,669	531	3,102	53,935
2011	73,357,205	13,009,095	55206444	1.02E+08	8,567	6,623	2,989	70,656
2012	92,940,094	1,290,666	56534592	1.08E+08	9,218	8,965	2,859	84,683
2013	107,234,520	187,334	57515673	108500000	14,000	7,445	2,855	87,804

(Sources: Indonesia Banking Statistics, 2013)

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